



Kim: Give gifts toward college rather than an Xbox One

Mickey Kim November 9, 2013



INVESTING

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Chances are there's a young person on your holiday gift list pleading with you to buy one of the next-generation Xbox One or PS4 game consoles. Do them a favor and disappoint them.

Instead, consider establishing and/or making a gift to his or her Indiana CollegeChoice 529 plan account. Not only is it a gift that will last a lifetime, but if you're an Indiana resident, the state will pick up 20 percent of the cost.

529 plans are education savings plans designed to help families set aside funds for future college costs. While contributions to 529 plans are not deductible on your federal tax return, your investment grows on a tax-free basis. Distributions from the plan are tax-free, as long as they pay for qualified expenses of the beneficiary, regardless of whether the college is public or private or where it is located.

Savingforcollege.com offers free, comprehensive information on its website. You should also consult your tax adviser.

A donor (typically a parent or grandparent) opens an account and names a beneficiary (the future or current college student). Funds in the account are used to pay qualified college expenses of the beneficiary, but the account owner controls when withdrawals are taken and for what purpose.

In most cases, the beneficiary has no rights to the funds. The account owner even can reclaim the funds (with tax and penalty), change the beneficiary or move the investment to a different 529 plan.

Every state offers a 529 plan, open to residents of any state. While 529 plans share many of the characteristics and benefits, they differ as to the investment choices offered, fees, performance record and state income tax benefits.

Information on the Indiana CollegeChoice 529 plan is at www.collegechoiceplan.com. The Direct Plan is for the do-it-yourself investor. The Advisor Plan is for investors working with a financial adviser. Both are rated Bronze Medalists by Morningstar.

Friend and fellow Illinois alum Christine Benz is Morningstar's director of personal finance. She says, "The Indiana 529 plans' lineups are sensibly structured and Indiana's tax credit is among the most generous in the country."

Hoosiers can claim a 20-percent income tax credit—up to \$1,000 per return—for contributions made directly to a CollegeChoice account, whether they are the account owner or not. Make a \$5,000 contribution received by Dec. 31 of this year and you can take a \$1,000 credit on your 2013 Indiana income tax bill. On a net basis, your \$5,000 contribution costs you only \$4,000.

This is likely the closest you will ever come to a sure thing in investing.

According to Jodi Golden, executive director of the Indiana Education Savings Authority, “With arguably the best tax advantage in the country, Hoosiers have every opportunity to help a loved one reach their full potential by saving for their education. It’s never too early or too late, but with costs rising every year, it’s imperative Hoosiers prepare for that tomorrow, today.”

It only takes \$25 to open a CollegeChoice account and the Ugift feature gives account owners an easy, electronic way to suggest a milestone or holiday gift of college savings (in lieu of traditional presents) to family and friends. You won’t find a better bargain this holiday season than giving the priceless gift of a college education and letting Indiana pick up 20 percent of the tab. •

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